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# China's Economic Policy on a New Course

by Wolfgang Borchardt and Ulrich Dietsch, Hamburg \*

**Since Mao's death China has greatly strengthened its contacts with Western industrialized states. This year the People's Republic has concluded trade agreements with Japan and the European Community, amongst others. All these activities suggest that China's economic policy is set on a new course.**

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The virulent controversy between two political groupings in the Chinese People's Republic came to a head after the death of Mao Tse-tung in 1976. Both these groups claimed to be "Mao's true heirs" but they presented fundamentally different concepts for the further political and economic development of the country. The overt clashes about China's domestic policy between the radical left, headed by the so-called "Gang of Four", and the more technocratically orientated elements around Teng Hsiao-ping did not only paralyse all foreign political undertakings but resulted in wide-spread stagnation of economic development in the country<sup>1</sup>. The utter lack of clarity about the objectives and priorities to be pursued in the consolidation and further expansion of the Chinese economy in particular impeded all the vital activities for the stimulation of the economy which had been impaired by the political controversies conducted in public. Only when the struggle for the direction of Chinese policy ended with the victory of the technocratically orientated forces under the leadership of Hua Kuo-feng and Teng Hsiao-ping were the prerequisites for a new start in economic policy created.

The programme of the new Chinese state and party leadership for the economic and political consolidation of the country and its further advancement over the medium and long term has the aim of initiating a process capable of turning China by the end of this century into a socialist world power which plays a leading role in the economic, political, military and cultural spheres.

In order to achieve this ambitious objective, the acceleration and intensification of economic development are to be given unqualified priority by the population, party and government in their future activities since it is assumed that "the rapid development of the socialist economy is ultimately decisive"<sup>2</sup> for the attainment of all objectives.

## The "Four Modernizations"

Following up the economic programme drawn up by the deceased Premier Chou En-lai<sup>3</sup>, the "Four Modernizations" have been proclaimed as the concept which supplies the essential lever for the speeding-up of economic development. The technological level and efficiency of agriculture, industry, armaments, science and technical equipment are to be raised as quickly and extensively as possible because they are regarded as an essential guarantee for the desired great power development. Modernization of the major sectors of the economy is to enable China by the end of this century, for example, "to reach or exceed the world level in regard to the per-hectare yields of the principal agricultural products and to approach, match or surpass the level of the most advanced capitalist countries in regard to the principal industrial products"<sup>4</sup>.

The development of science and technology at a forced pace is regarded as "the key to the four modernizations"<sup>5</sup>. Apart from its structural weaknesses, this sector has suffered greatly from the campaigns against the intellectuals during the

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<sup>1</sup> The Chinese economy struck rock bottom in 1976. Cf. Rüdiger Machetzki, *Wirtschaftsleistungen 1977. Jahr der Konsolidierung* (Economic achievements in 1977 — a year of consolidation), in: *China aktuell*, 6th year (January 1978), p. 1011.

<sup>2</sup> Hua Kuo-feng: "Let us rally to fight for the building of a modern and strong socialist country!" Report on the activities of the Government at the first session of the 5th National People's Congress on February 26, 1978, in: *Peking Rundschau*, 15th year (1978), No. 10, p. 20.

<sup>3</sup> Cf. Bettina Gransow, Frank Suffa-Friedel, *Der Nachlaß des Maoismus und die gegenwärtige Entwicklung der VR China. Teil II* (The legacy of Maoism and the present development of the PR China. Part II), in: *Blätter für deutsche und internationale Politik*, 22nd year (1977), No. 2, p. 234 ff.

<sup>4</sup> Hua Kuo-feng, *ibid.*, p. 20.

<sup>5</sup> Cf. Teng Hsiao-ping, Address to the National Science Conference on China's road to world power status, the party and the intellectuals on March 18, 1978, reprinted in: *Frankfurter Rundschau*, April 22, 1978.

Cultural Revolution and through activities of the radical left in recent years, with the result that, as has been correctly noted, "the distance between the scientific and technical level of China and that of the advanced countries which had already narrowed has once more widened"<sup>6</sup>. Considerable importance must therefore be attached to the training and advancement of native scientists and technologists who are "politically reliable and experts on their subjects"<sup>7</sup> as well as to increased adoption of developed technologies from the more highly developed countries.

Modernization of the essential sectors of the economy — combined with a policy of offering greater material incentives to factory and office workers, etc., in accordance with the slogan of "From each according to his abilities, to each according to his performance"<sup>8</sup> — is thus becoming the most important component part of the new economic policy course. Whereas Mao Tse-tung's concept of socialism considered the development of the productive resources to be "only of subordinate importance compared with the permanent reform of the conditions of production"<sup>9</sup>, the emphasis is now being put on the development of the productive resources: "We must go on changing the parts of the superstructure which no longer match the economic basis and also those parts of the production conditions which are no longer in accord with the growing productive resources"<sup>10</sup>.

By setting these priorities, China is not only in actual fact moving closer to the growth-orientated Soviet-type model of socialist development but beginning to work towards the objective of enabling China to "cover in 22 years a road for which other countries needed 40, 50 or even more years"<sup>11</sup>.

### Internal Consolidation

Such ambitious aims can obviously only be achieved, or stand a chance of realization, if all internal and external forces can be rallied and concentrated on the accomplishment of this task. The internal political consolidation of the country and the subordination of its foreign political activities to this objective are decisive preconditions. Mindful of these two aspects, all the important measures taken by the new state and party

<sup>6</sup> Anon., Ein bedeutender Schritt zur Fortsetzung des Langen Marsches (An important step for the continuation of the Long March), in: Peking Rundschau, 15th year (1978), No. 9, p. 11.

<sup>7</sup> Teng Hsiao-ping, *ibid.*, p. 14.

<sup>8</sup> Hua Kuo-feng, *ibid.*, p. 28.

<sup>9</sup> Bettina Gransow, Frank Suffa-Friedel, *ibid.*, Part I, in: Blätter für deutsche und internationale Politik, 22nd year (1977), No. 1, p. 77.

<sup>10</sup> Hua Kuo-feng, *ibid.*, p. 15.

<sup>11</sup> Teng Hsiao-ping, *ibid.*

leadership under Hua Kuo-feng may be regarded as purposeful and consistent.

In the domestic sphere it was considered essential that after the political elimination of the "Gang of Four" its followers should be removed from all levels of the state and party apparatus in order to ensure active and unimpeded progress on the new course of economic policy. If the constant exhortations that "today and for some time in the future" it remains "the most important task to unmask and criticize the Gang of Four"<sup>12</sup> is to be regarded as more than rhetoric and an artifice for the perpetuation of the tactically useful image of a domestic enemy, the constant reiteration of this formula must be considered an index of the strength and latent presence of the forces of the radical left although they have been deprived of their power. That it was possible to eliminate this group at all — which is now being impeached on the absurd charge that it wanted to "establish a fascist dictatorship of the bourgeoisie"<sup>13</sup> — was in great measure due to the engagement of the "People's Liberation Army" which was thereby able to rid itself largely of the competition of the people's militias, the favorite of the radical left, and to insist at the same time on the overdue modernization of the army.

While depriving the "Gang of Four" of its power, the new leadership made increased efforts to attract the support of sections of the population which do not belong to the traditional basis of the Communist Party. Among such steps were the reactivation of previously permitted political parties, fresh support for the mass organizations including especially the trade unions which had almost disappeared and — as the culmination of these efforts — the convening of the "Political Consultative Conference of the Chinese People", a popular front organization which had not met for thirteen years<sup>14</sup>. All these activities by means of which institutions and organizations of the fifties and sixties are being revived are aimed at maximum mobilization of the entire people for the new political and economic strategy.

The process of internal consolidation ended, for the time being, with the Vth People's Congress from late February to March 5 at which the new political leadership around Hua and Teng was confirmed and strengthened<sup>15</sup>. The new economic course was at the same time sanctioned and settled, and the initiated internal development

<sup>12</sup> Hua Kuo-feng, *ibid.*, p. 16.

<sup>13</sup> *Ibid.*, p. 8 and p. 12.

<sup>14</sup> Cf. Helmut Martin, Fünfter Volkskongreß — Schlußpunkt in der personellen und programmatischen Rekonstituierung der neuen Führung (Fifth People's Congress — the final step in the personal and programmatic reconstitution of the new leadership), in: China aktuell, 7th year (March 1978), p. 125 f.

<sup>15</sup> Cf. *ibid.*, p. 126-128.

towards gradual liberalization was carried forward by the adoption of an amended constitution<sup>16</sup> and a new civil and criminal code<sup>17</sup>.

### Reactivated Foreign Policy

Similar to these internal measures for the creation of an adequate starting basis for the successful pursuit of its ambitious economic objectives, the People's Republic developed increased activities in its foreign policy. The Western industrialized countries which offer special attractions for China's economic development were of particular interest. The desire for increased adoption of Western technologies to increase China's productivity and speed its economic development provided the essential motive power for an extension of the relations with the countries of Western Europe in particular.

The political justification for this orientation is the modified Maoist theory of the "trichotomy of the world"<sup>18</sup> which divides the countries of the world not "according to their social systems but only according to their state of economic development"<sup>19</sup> and regards the super powers, the USA and the USSR, as the first world, Western Europe, Japan, Eastern Europe and Canada as the second world, and China with the developing countries as the third world. This concept allows for at least a partial alliance of the second world and the third world as a possibility and necessity in order to avoid their oppression by the super powers and especially by the particularly aggressive "Soviet social imperialism"<sup>20</sup>. There exists thus a fundamental ideological warranty for the extension of China's relations with Western Europe and with Japan, which is extremely useful for the unimpeded development of external economic relations. The development of the relations with the socialist states, and the USSR which is still the object of harsh verbal attacks, is proving much more cumbersome although the relatively moderate reaction to the Soviet proposal for a re-arrangement of Soviet-Chinese relations<sup>21</sup> and the appointment of the East Europe specialist Djāng Hai-feng as Deputy Foreign Minister<sup>22</sup> suggest a gradual change in these relations with

<sup>16</sup> Reprinted in Peking Rundschau, 15th year, March 21, 1978, No. 11, p. 5-15.

<sup>17</sup> Cf. Le Monde, March 19/20, 1978.

<sup>18</sup> Cf. for details: Anon., Die Theorie des Vorsitzenden Mao über die Dreiteilung der Welt — Ein bedeutender Beitrag zum Marxismus-Leninismus (The theory of chairman Mao on the trichotomy of the world — an important contribution to Marxism-Leninism), in: Peking Rundschau, 14th year, Nov. 8, 1978, No. 45, p. 11-43.

<sup>19</sup> Bettina Gransow, Frank Suffa-Friedel, *ibid.*, part I, p. 72.

<sup>20</sup> Cf., e.g., the remarks of Foreign Minister Huang Hua in the UN General Assembly on Sept. 29, 1977, excerpts of which were reprinted in: Europa-Archiv, 33rd year (1978), No. 5, p. D153.

<sup>21</sup> Cf., e.g., anon., Taten ja, inhaltsleere Erklärungen nein! (Deeds — yes; meaningless statements — no!), in: Peking Rundschau, 15th year, April 4, 1978, p. 17-20.

<sup>22</sup> News item in Frankfurter Rundschau of May 6, 1978.

the intention of at least avoiding further confrontations which would be disadvantageous to both sides.

These adjustments in the direction of domestic and foreign policy are crucial as providing parameters for a realization of the new course for the future economic and political development of the country. The new course in economic policy impinges on basic functional elements of the economic system. The relationship of centralization and decentralization in the planning and directional system and the priority of various forms of ownership over the means of production in agriculture are given a new direction. The subject of material incentives including the incomes policy presents one of the major sets of problems because two ideological trends, both basic to Chinese thought, are clashing in this field — the mass line and the revisionist-pragmatic line. The special importance of science and technology in the context of the new economic course has a significant effect on the line to be pursued in external economic relations.

### Distinct Centralization Tendencies

The Chinese leadership under Hua and Teng believes that there has to be greater centralization in planning than hitherto in order to reach the ambitious long-term growth targets in industry and agriculture and also to counter the tendencies towards independence of whole regions which have been increasingly evident in recent years. Central production and delivery targets have been ignored under the influence of the "Gang of Four" and its followers. Decisions were taken independently in many instances concerning investments and the financing of investments, on the size of the labour force to be employed, on the pay-roll and on the prices to be charged<sup>23</sup>. Not the least important reason for this was that since the Cultural Revolution the adherents of the "decentralistically" oriented mass line have found it impossible to harmonize the central plan with their own concepts of basis democracy.

The accentuation of the planning element coincides with the propagation of a "tight system of personal responsibility of the leading cadre"<sup>24</sup> with clearly circumscribed tasks which has not existed since the so-called phase of consolidation in the early sixties. This demand suggests that the directorial principle of the Soviet socialist brand which has been frowned upon since the Cultural Revolution because it runs counter to the ideas of participation entertained by the ad-

<sup>23</sup> Cf. anon., Pragmatischer Wirtschaftskurs in der VR China bestätigt (Pragmatic economic course in PR China confirmed), in: Nachrichten für Außenhandel, Sept. 1, 1977.

<sup>24</sup> Hua Kuo-feng, *ibid.*, p. 27.

herents of the mass line is back in favour. Only when uniform central planning and direction have been strengthened is the initiative on the central and local level to be given full play. "Important" questions are, according to Hua, "to be the prerogative of the central level . . . (while) subordinate questions are to be transferred to the local level"<sup>25</sup>. At the XIth Congress of the CP China in August 1977<sup>26</sup> there was already evidence of a trend towards stronger central authority; at that time the economic problems were dominated even more than now by the aim of political consolidation.

Teng Hsiao-ping may be regarded as the father of the centralization aspirations — as indeed of most of the current reform measures. He was the author, together with the party's finance and planning expert Li Hsien-nien, of the so-called "Outline Report" in 1975 which called for the speeding-up of the economic and, more especially, the industrial development of the country. This report already contained the demand for uniform central planning of investment and production while the decentralized decision making units were to continue only on a very limited scale<sup>27</sup>.

#### No Complete Collectivization

The new economic course will not jeopardize the people's communes which have been propagated and established since 1958 but neither is this form of production and distribution organization which comes near to the social objectives of communism to be strengthened. According to Mao's ideas about the forms of property in the Chinese model<sup>28</sup> which since the period of the "Great Leap Forward" in 1958–1960 have been generally adopted in economic policy the extant private farm holdings were to be eliminated and the people's communes to be left as the sole form of ownership over the means of agricultural production. Chinese economic policy on its present course aims however at leaving about 5% of the agricultural acreage<sup>29</sup> as at present in the hands of private peasants working on their own and offering incentives for an increase in the production efforts of the independent peasants, especially in the field of animal production; these peasants are already achieving high output rates.

In his speech at the Vth People's Congress Hua reaffirmed his policy "which allows individual

members of the communes to cultivate small plots of land for their private use and to engage in small-scale subsidiary activities — and in livestock raising areas to hold a limited stock of animals for private use — provided that the absolute priority of the collective farm is assured"<sup>30</sup>. Moreover, the peasants have been urged to carry on with their private market dealings. That this policy was bound to encounter strong ideological objections is shown by Hua's remark about the "Gang of Four" which was interpreting his policy "maliciously" as a restoration of capitalism. Economic exigencies — bad harvests in recent years, the need for large grain imports and ambitious targets for the development of agriculture — and a disposition to take appropriate action have caused the Chinese leadership to put ideological reservations aside. One result of this is that the aim of complete collectivization of the agriculture will not be fulfilled for the time being.

#### Rediscovered Material Incentives

The principle of "From each according to his abilities, to each according to his performance" which is propagated as part of the new economic course and combined with the strengthening of material incentives is in glaring contrast to the ideas of the social-revolutionary wing of the party as developed during the Cultural Revolution. The "Gang of Four" and their followers can be counted among this group. The performance principle which has been made the principle underlying all socialist production and is applied in conjunction with material incentives runs counter to the predominance of policy and ideology over the economy as propagated by Mao, to the revolutionary initiative of the masses as a spur to production and to the equalization of incomes which has been in progress since the Cultural Revolution in particular. It operates in favour of the social differentiation process with its "three great differentials" (town vs. countryside, worker vs. peasant, intellectual vs. physical work) while it was hitherto regarded as a basic characteristic of a socialist development that it tended to level down these differences<sup>31</sup>.

The weakening of the political stimulants and the strengthening of the economic incentives involves both the wages sector and the profit sector. To the "Gang of Four" the achievement of profits was tantamount to "rule by profits". It was therefore rejected as a matter of principle. In the view of the present leadership it is necessary in order

<sup>25</sup> Ibid., p. 23.

<sup>26</sup> Cf. Hua Kuo-feng, Political report to the XIth Congress of the CP China, in: Peking Rundschau, 14th year (1977), No. 35, p. 53 ff.

<sup>27</sup> Cf. anon., Pragmatischer Wirtschaftskurs in der VR China bestätigt (Pragmatic economic course in PR China confirmed), ibid.

<sup>28</sup> Cf. Jiri Kosta, Jan Meyer, Volksrepublik China (People's Republic of China), Frankfurt-Cologne 1976, p. 244; Mao Tse-tung, Das machen wir anders als Moskau, Kritik an der sowjetischen Politökonomie (We are doing this differently from Moscow — a critique of the Soviet politoeconomics), ed. by Helmut Martin, Reinbek near Hamburg 1975, p. 73 f.

<sup>29</sup> Cf. Jiri Kosta, Jan Meyer, ibid., p. 244.

<sup>30</sup> Hua Kuo-feng, Schließen wir uns zusammen . . . (Let us rally . . .), ibid., p. 24.

<sup>31</sup> Cf. Rüdiger Machetzki, Einkommen und materielle Lebensverbesserung in der Volksrepublik China (Incomes and material improvements of life in the People's Republic of China), in: China aktuell, 7th year (February 1978), p. 20.

to provide capital for production and to finance all the state expenditure<sup>32</sup>. The achievement of profits thus differs in its economic content in no way from the achievement of profits in the Soviet socialist system which has always been most severely attacked — also in regard to this point<sup>33</sup>.

Sweeping changes are about to take place in the wages sector in particular as is evidenced by the raising — for the first time since 1972 — of the wages of public servants and employees in industry from October 1977 and by the changes in the wages system which have been designed to stress the leading role of the performance principle. Payment by working hours, including piece-rates, is being advocated instead of the customary monthly wages. Bonus payments are, besides, to be reintroduced on a wider scale than previously and to be given a higher political priority. Piece-rates are to be chosen especially if hourly wages would lead to "egalitarianism" (!) or to "exceedingly great differentials"<sup>34</sup>. Bonus payments are to be made especially if wage adjustments cannot be carried out quickly enough; in such a case "the proper use of rewards (= bonuses; the authors) is capable of giving production a substantial fillip. When wages are relatively low, the proper use of rewards can play an important role in raising the socialist enthusiasm among the masses and improving their standard of living"<sup>35</sup>.

#### Changes in the Incomes System

The bonus payments, which had been rejected as a matter of principle since the period of the "Great Leap Forward" and piece-rates are used mainly in industry because the customary form of remuneration in agriculture is a different one, namely a kind of collective award with individual performance shares. Although bonus payments and piece-rates are less suitable for public servants, these performance-oriented forms of remuneration are to be applied also to them<sup>36</sup>. Regular increases in incomes at short intervals are envisaged as another material incentive; the increases will depend on pure performance criteria such as the attitude to the work, technical-operational skills and the actual contribution to production. These measures were already demanded by Teng in the "Outline Report"<sup>37</sup>. These same criteria were applied during the first five-year plan period from 1953 to 1957 when the Chinese were still practising the Soviet model. The current emphasis on the material interest also goes back to that period.

The alterations in the incomes system are certainly in great measure aimed at increasing economic growth and productivity. Another aim, due to the unsettled political situation in the country,

is that of lessening the dissatisfaction among the population about the bad economic situation and of making sure of its loyalty to the new leadership<sup>38</sup>. To mention an example, the "non-productive" public servants have been suffering most severely under the egalitarian policy pursued hitherto while the less well paid workers had reason to expect the greatest benefits from this egalitarian policy and need therefore appeasing before the performance principle is put into practice. The measures for the raising of wages were for this reason concentrated on these two groups.

#### Foreign Trade as a Factor for Growth?

The change of course in economic policy also involved a change of attitude to the role of external economic relations. It seems that the principle of "independence and self-sufficiency, trust in our own strength"<sup>39</sup> in accordance with which the external economic relations were assigned a quite subordinate role in the economic process seems to be gradually abandoned. At the Vth People's Congress Hua described the foreign trade as very important for economic growth<sup>40</sup>. At the present time however the external economic relations are incapable of playing the role of a growth factor — because of their insignificance if for no other reason. According to estimates by the Japan External Trade Organization, China's foreign trade did not exceed US \$ 14.29 bn; its exports amounted to US \$ 7.84 bn and its imports to US \$ 6.45 bn. The foreign trade is unlikely to exceed 4% of the Chinese GNP<sup>41</sup>.

Only when the volume of trade has been increased and the structure of imports is reflecting the need for technical progress will China's foreign trade be able to assume the role of a growth factor. The Chinese leadership is in principle ready to import technology but is hampered by political obstacles as well as economic problems such as the foreign currency shortage and an assortment of export goods which can hardly compete in the world market. The greatest obstacle is probably the persisting reluctance to adjust the foreign trade deficits and foreign in-

<sup>32</sup> Cf. *ibid.*, p. 23.

<sup>33</sup> Cf. Hsü Di-hsin, *Über die Frage des Gewinns (On the question of profit)*, in: *Peking Rundschau*, 15th year (1978), No. 13, p. 15 ff.

<sup>34</sup> Rüdiger Machetzki, *ibid.*, p. 23.

<sup>35</sup> *Ibid.*

<sup>36</sup> Cf. Hua Kuo-feng, *ibid.*, p. 26.

<sup>37</sup> Cf. Teng Hsiao-ping, *Documents on the situation of the nation at the climax of the power struggle in 1975*, quoted by Rüdiger Machetzki, *ibid.*, p. 20.

<sup>38</sup> Cf. Rüdiger Machetzki, *ibid.*, p. 24.

<sup>39</sup> Cf. Jiri Kosta, Jan Meyer, *ibid.*, p. 259.

<sup>40</sup> Cf. Hua Kuo-feng, *ibid.*, p. 258.

<sup>41</sup> Cf. Klaus Bänder, *China will seinen Außenhandel mit den Industriestaaten stark ausweiten (China wants to greatly increase its foreign trade with the industrialized states)*, in: *Frankfurter Allgemeine Zeitung* of April 10, 1978; see also the information on China's import quotas in 1970 in Jiri Kosta, Jan Meyer, *ibid.*, p. 25.

debtedness although under the aspects of growth it would be expedient to do so. In 1976 China recorded a foreign trade surplus of US \$ 1.25 bn and in 1977 one of US \$ 1.4 bn<sup>42</sup>. Credits are however accepted for Chinese enterprises – sometimes for up to 12 years<sup>43</sup>. As far as possible, the foreign trade is to be settled on the basis of bilateral agreements in order to allow the external economic relations to be integrated more satisfactorily with the national planning. China has concluded long-term trade agreements with its most important trading partners, Japan and the European Community, in the course of this year.

China has not so far gone along with the general trend in the economic relations between East and West to replace or complement trade by cooperation. But it cannot be ruled out that it will do so in the near future. The first skeleton agreement for enterprise-to-enterprise cooperation was concluded early this year with the Mitsubishi group of Japan. The agreement is a first step. It relates to industrial areas the extension of which is important to China, such as the heavy and petrochemical industries. Japan will supply production plants and transfer software in the form of process techniques. Japanese experts

will carry out extensive training programmes in close cooperation with the Chinese users of these process techniques<sup>44</sup>. It seems that the Federal Republic could become the second large cooperation partner. When Deputy Premier Ku Mu recently visited the Federal Republic, the extensive expert discussions focused on economic questions<sup>45</sup>.

To sum up, it may be stated that the new economic course of the Chinese state and party leadership shows unmistakable similarities with the economic policy pursued under Soviet influence in the fifties. It is thus diametrically opposed to the policy which has been pursued in the years since the Cultural Revolution and involves the – at least partial – renunciation of essential characteristics of the specifically Chinese road of development. That the PR China is thus in fact moving closer to the Soviet model may enable its economic partners in the West to assess the Chinese interests and activities more accurately.

<sup>42</sup> News item in Neue Zürcher Zeitung, April 7, 1978.

<sup>43</sup> News item in Nachrichten für Außenhandel, August 22, 1977.

<sup>44</sup> News item in Frankfurter Allgemeine Zeitung, April 6, 1978.

<sup>45</sup> News item in Süddeutsche Zeitung, May 30, 1978.

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